



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

March 13, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **CENTER FOR HEALTH JUSTICE, INC. – A DEPARTMENT OF PUBLIC
HEALTH HIV/AIDS PREVENTION AND CARE SERVICES PROVIDER –
CONTRACT COMPLIANCE REVIEW**

We completed a review of Center for Health Justice, Inc. (CHJ or Agency), which covered a sample of transactions from January 2011 through May 2012. The County Department of Public Health Division of HIV and STD Programs (DHSP or Department) contracts with CHJ, a non-profit organization, to provide HIV/AIDS transitional case management and health education and risk reduction outreach services.

Our review was intended to determine whether CHJ provided services to eligible clients, and spent Program funds in accordance with their County contracts. We also evaluated the Agency's accounting records, internal controls, and compliance with their contracts and applicable guidelines.

At the time of our review, CHJ had two cost-reimbursement contracts with DHSP. DHSP paid the Agency approximately \$222,000 from January 2011 through March 2012. CHJ provides services to residents of all Supervisorial Districts.

Results of Review

CHJ recorded and deposited DHSP payments timely, provided services to eligible individuals, and maintained the required personnel records. However, the Agency did not always comply with all requirements of the County contract. For example, CHJ:

- Inappropriately allocated all \$129,391 in employee salary and benefits costs from January 2011 through December 2011 based on budgeted staffing, instead of actual hours worked.

CHJ's attached response indicates that they have revised their timecards to support the staffing costs. The Agency indicated that they used schedules and other records to reconstruct their staff's timecards. CHJ should provide these records to DHSP for the Department to verify that the revised timecards are adequate to allocate staffing costs.

- Inappropriately charged \$7,532 (82%) of the \$9,217 in non-payroll expenditures reviewed to the DHSP Program.

CHJ's response indicates they will repay DHSP \$313 of the \$7,532 in unsupported consulting service charges, and have developed revised timecards to support their allocation method for the remaining \$7,219 in non-payroll expenditures. However, as noted earlier, CHJ should provide the records they used to revise the timecards to DHSP for the Department to verify that the revised timecards are adequate to allocate the costs.

- Charged DHSP \$3,296 for expenditures that were not supported by the Agency's accounting records.

At our November 1, 2012 exit meeting, CHJ agreed to repay \$156 for office supplies that they overbilled, and to provide additional documentation for the remaining expenditures. However, CHJ's written response indicates that they now disagree with our finding and recommendation, and have provided documentation to account for the expenditures. Our review indicates that the additional documentation CHJ provided did not support the expenditures charged to DHSP. CHJ needs to repay the \$3,296, or provide documentation to support the costs.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with CHJ and DHSP on November 1, 2012. CHJ's attached response indicates agreement with all of our findings and recommendations, except for the one noted above. DHSP indicated they will work with CHJ to ensure that our recommendations are implemented.

We thank CHJ management for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:AA:JS

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, M.D., M.P.H., Director, Department of Public Health
Natalee Ellars, Board President, CHJ
Cajetan Luna, Executive Director, CHJ
Public Information Office
Audit Committee

**CENTER FOR HEALTH JUSTICE, INC.
HIV/AIDS PREVENTION AND CARE SERVICES
CONTRACT COMPLIANCE REVIEW
JANUARY 2011 TO MAY 2012**

ELIGIBILITY

Objective

Determine whether Center for Health Justice, Inc. (CHJ or Agency) provided services to clients who met the Department of Public Health Division of HIV and STD Programs (DHSP) eligibility requirements.

Verification

We reviewed the case files for seven (11%) of the 62 clients who received services from CHJ from April 2011 through May 2012 for documentation of their eligibility for DHSP services.

Results

CHJ had documentation to support all seven clients' eligibility for DHSP services.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether CHJ recorded revenue in the Agency's financial records properly, deposited cash receipts into their bank account timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed CHJ management, and reviewed the Agency's financial records and May 2012 bank reconciliation.

Results

CHJ recorded revenue in their financial records properly, deposited DHSP payments into the Agency's bank account timely, and prepared the monthly bank reconciliation appropriately.

Recommendation

None.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether expenditures charged to the DHSP Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed CHJ personnel, and reviewed financial records for 16 non-payroll expenditures, totaling \$9,217 that the Agency charged to the DHSP Program from January 2011 through April 2012.

Results

CHJ inappropriately allocated \$7,219 to the DHSP Program for shared expenditures (i.e., rent, utilities, supplies, etc.) based on budgeted staffing, instead of using a methodology based on actual conditions as required. In addition, the Agency did not have documentation for \$313 billed to the DHSP Program for consulting services.

Recommendations**CHJ management:**

1. **Review and reallocate all shared non-payroll expenditures charged to the DHSP Program during the contract term, provide DHSP with supporting documentation, and repay any overbilled amounts.**
2. **Repay DHSP \$313, or provide documentation to support the consulting services expenditures.**
3. **Ensure all non-payroll expenditures billed to DHSP are properly allocated and documented in compliance with the County contract.**

PAYROLL AND PERSONNEL**Objective**

Determine whether CHJ charged payroll costs to DHSP appropriately, and maintained personnel files as required.

Verification

We reviewed the Agency's financial records, and compared the payroll costs for four employees, totaling \$9,249 for March 2012, to the Agency's payroll records and time reports. We also reviewed the personnel files for four CHJ staff.

Results

CHJ maintained personnel records as required, and appropriately charged the March 2012 employee salary costs to DHSP. However, we noted that, from January 2011 through December 2011, CHJ inappropriately allocated \$129,391 in employee salary and benefits costs based on budgeted staffing costs, instead of actual conditions. The Agency began appropriately allocating employee salary and benefits costs based on actual hours in January 2012. However, CHJ needs to review and reallocate all payroll expenditures charged to the DHSP Program during the contract term using an allocation method that is based on actual conditions, provide DHSP with supporting documentation, and repay any overbilled amounts.

We also noted that the Agency overbilled DHSP \$146 in March 2012 for employee benefits costs that CHJ did not incur.

Recommendations**CHJ management:**

4. **Repay DHSP \$146, and review all employee benefits costs charged to the DHSP Program during the contract term, provide DHSP with supporting documentation, and repay any overbilled amounts.**
5. **Ensure employee benefits costs are billed accurately.**
6. **Review and reallocate all shared payroll expenditures charged to the DHSP Program during the contract term, provide DHSP with supporting documentation, and repay any overbilled amounts.**

COST ALLOCATION PLAN**Objective**

Determine whether CHJ prepared their Cost Allocation Plan (Plan) in compliance with their County contracts, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed CHJ's Plan, and a sample of expenditures from January 2011 through April 2012.

Results

CHJ prepared its Plan in compliance with the County contract. However, CHJ did not appropriately allocate shared expenditures to the DHSP Program as discussed earlier. In addition, CHJ did not have documentation to support \$819 in indirect costs that the Agency allocated to the DHSP Program from January 2011 through April 2012.

Recommendation

Refer to Recommendations 1, 3, and 6.

- 7. CHJ management repay DHSP \$819, or provide DHSP with supporting documentation.**

COST REPORTS**Objective**

Determine whether CHJ's Cost Reports reconciled to their accounting records, and whether the Agency had unspent revenue that should be returned to DHSP.

Verification

We compared CHJ's Cost Reports for January 2011 through March 2012 to their accounting records, and to DHSP's payment records.

Results

CHJ's Cost Reports did not reconcile to their accounting records. Specifically, the Agency's accounting records did not support \$3,296 in office supply and indirect costs that were included in their Cost Reports.

Recommendations

CHJ management:

- 8. Repay DHSP \$3,296, or provide documentation to support the costs.**
- 9. Ensure Cost Reports reconcile to their accounting records.**

Center For Health Justice

PLAN OF CORRECTIVE ACTION

Number	Recommendations	Contractor's Plan of Correction	Responsible Person	Completion Date
1	Review and reallocate all shared non-payroll expenditures charged to the DHSP Program during the contract term, provide DPH with supporting documentation, and repay any overbilled amounts.	Issues raised in Number 1, 6, 7, 8, & 9 are all based on timesheets that were implemented in 2005 based on a recommendation from DHSP audit for 2004 and accepted by DHSP in 2006, 2009 and 2011 financial audits. In 2012, we implemented a new timesheet detailing specific program hours at the recommendation of an audit that was performed by AIDS United in December 2011. We proactively raised this issue with your auditors, and we provided your auditors with the revised timesheets. With the new timesheets implemented in 2012, there are no issues. Per your request, we have recreated and submitted timesheets for the disputed period.	Ron Osorio/Cajetan Luna	New Timesheets January 2012, Recreated for contested period, November 2012 submitted to Ms. Phan at the Exit Interview
2	Repay DPH \$313 or provide documentation to support the consulting services expenditures.	A billing error, Center for Health Justice will repay \$313.00 to DPH. Double check all expenditures going forward to insure proper billing.	Jardine Monteil	Will repay DHSP upon completion of this audit
3	Ensure all non-payroll expenditures billed to DPH are properly allocated and documented in compliance with the County contract.	Double check all expenditures going forward to insure proper billing.	Jardine Monteil	Immediately
4	Repay DPH \$146 and review all employee benefits costs charged to the DHSP Program during the contract term, provide DPH with supporting documentation, and repay any overbilled amounts.	A billing error, Center for Health Justice will repay \$146.00 to DHSP. Double check all employee benefits going forward to insure proper billing.	Jardine Monteil	Will repay DHSP upon completion of this audit
5	Ensure employee benefits costs are accurately billed.	Double check all employee benefits going forward to insure proper billing.	Jardine Monteil	Immediately

6	Review and reallocate all shared payroll expenditures charged to the DHSP Program during the contract term, provide DPH with supporting documentation, and repay any overbilled amounts.	We request DPH/DHSP accept our reconstructed timesheets for the contested period and related allocated expenses. We demonstrated good faith from the beginning of this process, including having proactively raised the issue of the timesheet discrepancy with your auditors after nine months of them not raising a red flag about the issue. Because we maintain excellent records and proactively review and revise our records whenever necessary, we were able to reconstruct the timesheets during the contested period based on the auditors' new requirements for the period. The reconstructed timesheets fully comply with your auditors' requirements and accurately represent the actual time devoted by respective staff members, to the best of our knowledge. The updated timesheet form has been in use for the full 2012 period. No additional issues have been raised about our reporting on this issue within the new timesheets during the 2012 period. Supportive documentation has been provided to Ms. Phan. No repayment necessary.	Jardine Monteil/ Cajetan Luna	Immediately
7	CHU management repay DPH \$819 or provide DPH with supporting documentation.	Addressed and provided general ledger and allocation worksheet to Ng-Phan.	Jardine Monteil	Immediately
8	Repay DPH \$3,296.	We believe we have supplied the requested documents to account for this amount. Our Indirect Cost rate was far below our Independent Auditor Rate or the allowable amount by OAPP (now DHSP)	Contested	Contested
9	Ensure Cost Reports reconcile to their accounting records.	Revise and update Cost Report	Jardine Monteil	Immediately


Cajetan Luna, Executive Director

11/12/2012

Date